North Lanarkshire Council

Annual Report to Elected Members and the Controller of Audit

12 October 2011

For the financial year ended 31 March 2011

Contents

Executive Summary

Introduction - Section 1

Our overall responsibility as external auditor of North Lanarkshire Council ("the Council") is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice ("the Code"), revised and published in March 2007. We have a dual reporting responsibility for the audit: to the Elected Members of North Lanarkshire Council and to the Controller of Audit.

Financial Statements and Audit Opinion - Section 2

The financial statements of the Council for the year ended 31 March 2011 have been prepared to comply with accounting requirements contained in the IFRS Code of Practice on Local Authority Accounting in the United Kingdom 2010 ("The Code").

We are pleased to report that our audit opinion on the financial statements for the year ended 31 March 2011 is **unqualified**.

We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is **unqualified**.

The Council has adopted the going concern basis for the preparation of its financial statements.

The draft financial statements and supporting schedules were made available to us at the start of our audit allowing us to progress and complete the audit fieldwork within the agreed timescales. The quality of the draft financial statements and working papers produced by management were of a high standard.

As a result of our work, we proposed a number of audit adjustments, predominantly disclosure in nature and largely as a result of 2010/11 being the first year in which the Council were required to report under the new IFRS based Code of Practice. All adjustments have been accepted by management and were processed within the 2010/11 financial statements. Therefore, there are no unadjusted differences to report.

We also performed testing on the equal pay provision to ensure that it complied with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and we are satisfied with the reasonableness of the Council's accounting treatment for these equal pay claims.

Performance 2010/11 - Section 3

Revenue Budget

For the year ended 31 March 2011, after adjusting the in-year surplus to reflect the necessary statutory and non statutory adjustments, the General Fund shows a carried forward balance of £20.377 million, an increase of £1.634 million on the previous year. This was against a planned contribution to the general fund of £4 million.

The following significant factors contributed to the Council's 2010/11 revenue performance. Higher than budgeted costs for equal pay claims, extreme winter weather and voluntary severance were only partly offset by higher than budgeted savings from service expenditure reviews.

Capital Expenditure

Capital expenditure for 2010/11 totalled £176.78 million. Capital investment included £63.509 million in schools, £15.825 million in leisure facilities and £3.9 million in social work facilities and £54.04 million on housing services.

Financial Outlook - Section 4

The year ahead is expected to bring significant challenges to the public sector as a whole. The Council's external funding from the Scottish Government for 2011/12 has been reduced by £17.2 million (2.6%) compared to 2010/11. The Council has highlighted several cost pressures in its 2011/12 financial plan that may impact on its ability to achieve it's agreed budget. This reduced funding and cost increase challenges means that the Council is also faced with achieving savings of around £33 million in 2011/12.

In overall terms the Council is targeting savings of £70 million in the period 2011/12 to 2013/14.

Governance and Control - Section 5

We have reviewed the Council's overall governance arrangements, including a review of the key Committee structures and composition, internal audit and risk management. An appropriate governance framework is in place.

The results of our work on systems of internal control were communicated on 18 May 2011 to the Audit and Governance Panel in our Interim Management Letter (dated April 2011). The report contained 5 recommendations, one of which was graded as higher risk concerning the equal pay provision and the equal pay contingent liability. This is an area that will require continued attention from management and elected members.

The Code of Audit Practice requires us to review and report on the Council's Annual Governance Statement. The Council has compiled with best practice for its Statement and has outlined the processes it had employed to identify and evaluate risks. In addition, key elements of the Council's control framework have been highlighted. Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

We have followed up the Council's progress in implementing audit recommendations made by us in the prior year. Our Follow Up of Prior Year Recommendations Report (dated April 2011) was considered at the Audit and Governance Panel meeting on 18 May 2010. Of the 44 agreed recommendations made in the previous reports only 9 items remained in progress. There are no outstanding actions with a high priority risk rating. We are satisfied that due to the nature of the actions, reasonable progress is being made to achieve the recommendations.

Section 1: Introduction

Purpose of this report

The Annual Audit Report which follows is designed to set out the scope, nature and extent of our audit, and to summarise our opinion and conclusions on issues arising. Specifically this will direct your attention to matters of significance from our 2010/11 external audit and to confirm what action is planned by management to address the more significant matters identified for improvement.

Scope, nature and extent of our audit

Our overall responsibility as external auditor of North Lanarkshire Council ("the Council") is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007. In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources. It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the "appointed auditor" - PwC - and the Auditor General for Scotland's central performance teams. Our audit has been planned and conducted to take account of these wider perspectives where applicable to our responsibilities as "appointed auditor".

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "*Communication of audit matters to those charged with governance*", we are required to communicate audit matters arising from the audit of financial statements to those charged with governance. This Annual Audit Report to Members, together with previous reports to the Audit and Governance Panel throughout the year, as summarised at Appendix 2, discharges the requirements of ISA 260.

We would like to formally extend our thanks to the Council's managers and staff for the assistance they have given us during the audit process.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Glasgow
12 October 2011

Section 2: Financial Statements and Audit Opinion

Audit Opinion

2.01 Our audit opinion concerns the presentation of North Lanarkshire Council's financial position as at 31 March 2011 and its income and expenditure and cashflows for the year then ended.

2.02 Our opinion on the accounts states whether the financial statements:

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2010 Code, of the financial position of the Council as at 31 March 2011 and of its income and expenditure and cashflows for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

2.03 We are pleased to report that our opinion on the true and fair view on the financial statements and on the regularity of income and expenditure is **unqualified**.

2.04 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is also **unqualified**.

Basis of Preparation

2.05 The financial statements were prepared in accordance with the accounting requirements contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2010 ("the Code").

2.06 Local Authorities, including Joint Boards, were required to adopt International Financial Reporting Standards (IFRS) from 2010/11 onwards. Producing IFRS accounts for the first time was a substantial change for the Council, requiring significant input by management. Overall, this transition was well planned and executed by management, and our audit adjustments in respect of IFRS principally related to items of disclosure.

Approval

2.07 The Council's draft financial statements were signed as authorised for issue by the Executive Director of Finance and Customer Service to the Council on 22 June 2011 and submitted to the Controller of Audit by the deadline of 30 June 2011.

Audit Process

2.08 The draft financial statements and supporting schedules were made available to us at the start of our audit allowing us to progress and complete the audit fieldwork within the agreed timescales. The quality of the draft financial statements and working papers produced by management were of a high standard.

Unadjusted Misstatements

2.09 Under ISA 260 - "Communication of audit matters to those charged with governance", we are required to report to members of the Council, all unadjusted misstatements which we have identified during the course of our audit, other than those which we deem to be trivial in nature.

2.10 During the course of our audit we identified a number of proposed adjustments, principally disclosure in nature and largely as a result of 2010/11 being the first year in which the Council was required to report under the new IFRS based Code of Practice. Management has accepted all of our proposed adjustments and these have been reflected in the final financial statements. Therefore, there were no unadjusted differences following our external audit.

Group Balances and Going Concern

2.11 As part of the financial statement process, in accordance with the Code, the Council has prepared group accounts incorporating:

- The Campsies Centre (Cumbernauld) Ltd
- The Time Capsule (Monklands) Trust Ltd
- North Lanarkshire Leisure Ltd
- North Lanarkshire Municipal Bank Ltd
- Amey Roads (North Lanarkshire) Ltd
- Maintenance and Property Care Ltd
- Saltire Facilities Management Ltd
- Strathclyde Fire and Rescue Joint Board;
- Strathclyde Police Joint Board;
- Strathclyde Partnership for Transport;
- Strathclyde Concessionary Travel Scheme Joint Board;
- Lanarkshire Valuation Joint Board;
- Fusion Assets Ltd

2.12 The accounts of all group bodies have been prepared on a going concern basis with the exception of the Time Capsule (Monklands) Trust Ltd which merged with North Lanarkshire Leisure Ltd on 28 April 2011.

Audit independence

2.13 We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Authority and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Accounting Issues

2.14 During the course of our final audit work we discussed a number of accounting issues with management, with the more significant matters outlined below.

Transition to IFRS

2.15 The Council's 2010/11 Statement of Accounts has been prepared for the first time on an IFRS basis. The adoption of the IFRS based Code of Practice has resulted in both new and considerably revised financial statements and an increase in the depth of disclosures required in the notes to the accounts. As part of our work on the transition to IFRS we identified one financial adjustment and a number of disclosure issues that were subsequently resolved with management as part of the audit process.

Pension Scheme Increases

2.16 On 22 June 2010 the government announced changes to the measure of price inflation for the purposes of increases to pensions. In future, statutory pension increases will be based on CPI (consumer price index) instead of RPI (retail price index). This was confirmed in December 2010 when the relevant statutory instrument was published.

2.17 This reflects a change in pension scheme rules and has resulted in a gain of £133.1 million being recognised within the Council's Comprehensive Income and Expenditure Statement. However, this does not reflect a cash gain and merely reflects a reduction in the pension scheme liability, as held on the balance sheet. As a result, the impact of this gain is reversed through the Movement in Reserves Statement and does not impact on the Council's overall financial outturn for 2010/11.

Equal Pay Provision – Note 19

2.18 In closing its accounts for the 2005/06 financial year the Council recognised the need to provide £23.552 million to fund the ongoing commitments arising from the agreed equal pay compensation framework. For the 2010/11 financial year the Council recognised the need to carry a provision of £17.29 million. A summary of the movements in this provision is provided in the table below:

Equal Pay Provision	Million
Equal Pay Provision at 31 March 2006	**£23.552**
Provision Utilised 1 April 2007 to 31 March 2010	(£13.217)
Provision increased by a further £9.232 million during 2009/10 to reflect the Council's agreement to settle further claims.	£9.232
Equal Pay Provision at 31 March 2010	**£19.567**
Provision Utilised during 2010/11	(£17.534)
Provision increased by a further £15.257 million during 2010/11 to reflect Equal Pay Claims in respect of Rated as Equivalent and Equal Value categories.	£15.257
Equal Pay Provision at 31 March 2011	**£17.290**

2.19 We performed testing on the equal pay provision to ensure that it complied with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and we are satisfied with the reasonableness of the Council's accounting treatment for these equal pay claims.

2.20 Since 2006 the Council has provided for Equal Pay claims totalling £48.041 million. It has settled claims totalling £30.751 million leaving a Provision of £17.290 million at 31 March 2011.

Contingent Liabilities – Note 34

2.21 In addition to the Equal Pay Provision, the Council has identified contingent liabilities in relation to other equal pay grievances and the potential costs that may arise as a result of further pay protection claims that are being pursued as a result of the Council's revised Single Status pay and grading structure.

2.22 Through our discussions with management we have identified that the Council's defence of these claims is underway and will likely go beyond the end of 2011/12. In addition the potential liability arising from these claims cannot be estimated with accuracy as the legal situation is not considered sufficiently certain. Given the continued uncertainty surrounding the legal position of these claims we are satisfied with the reasonableness of management's accounting treatment.

Action 1

Morrisons Scotland LLP and Amey Public Services LLP

2.23 The Council originally disclosed in its draft accounts that:

"The new Joint Venture companies: Morrison Scotland LLP and Amey Public Services LLP have yet to complete financial statements so no consolidation adjustments have been made concerning the Council's share of their financial position"

2.24 It is our view that as there is a group relationship in existence at 31 March 2011, then both joint ventures qualify to be considered for inclusion in the 2010/11 group accounts. However, having reviewed the management information provided by Morrisons Scotland LLP and Amey Public Services LLP we are satisfied that the Council is in a position to not consolidate either entity on the grounds of materiality. Management fully recognise however, that the Council will be required to consolidate the two joint ventures in its 2011/12 Group Accounts.

Action 2

Cash Flow Statement

2.25 The Council currently prepares its Cashflow Statement using the direct method. Whilst either the direct or indirect methods are permitted the code recommends following the indirect method as the indirect method is mandatory for the Whole of Government Accounts (WGAs). In order to avoid the need to prepare two separate Cash Flow Statements, one for its annual accounts and one for its WGAs, we would recommend that as part of the 2011/12 annual accounts process the Council discloses a Cash Flow Statement prepared under the indirect method within its annual accounts thereby meeting both requirements with a single Cash Flow Statement.

Action 3

Section 3: Financial Performance 2010/11

Revenue Performance for the year 2010/11

3.01 The Council reported a surplus on the provision of services of £58.453 million for the year ended 31 March 2011, which represents an increase of £66.251 million compared to 2009/10.

	2009/10 restated for comparison £'000		2010/11 £'000	
Net Cost of Services	**(741,100)**		**(685,046)**	
Gain on Disposal of Assets	1,224		63	
Net Financing and Investment Expenditure	(45,851)		(36,018)	
Taxation and Non-Specific Grant Income	777,929		779,454	
Surplus or (Deficit) on Provision of Services	**(7,798)**		**58,453**	
	General Fund	**HRA**	**General Fund**	**HRA**
Surplus or (Deficit) on Provision of Services	**(6,235)**	**(1,563)**	**98,604**	**(40,151)**
Adjustments between accounting basis and funding basis under regulations.	4,206	2,023	(97,636)	39,269
Net Increase/(Decrease) before Transfers to Reserves	**(2,029)**	**460**	**968**	**(882)**
Transfers (to)/from Reserves	578	-	666	-
Increase/(Decrease) in Year	**(1,451)**	**460**	**1,634**	**(882)**
Opening Balance	**20,194**	**3,963**	**18,743**	**4,423**
Closing Balance	**18,743**	**4,423**	**20,377**	**3,541**

Revenue Expenditure 2010/11

3.02 The Council budgeted for a planned surplus on its General Fund Account of £4 million. The actual surplus for the year of £1.634 million, differed by £2.366 million for the following reasons:

2010/11 Outturn Position	£'000	£'000
Higher costs than budget		
Extreme Winter Maintenance	(6,323)	
Equal Pay	(15,527)	
Voluntary Severance Costs	(6,336)	
		(27,916)
Lower costs than budget		
Savings on External Borrowing Costs	4,560	
Transfers to Earmarked Reserves	3,194	
		7,754
Higher savings than budget		
Service Expenditure Review Savings	17,796	
		17,796
Total Movement Against Budget		**(2,366)**

3.03 The Council achieved significant unbudgeted savings of £17.796 million in 2010/11 through Services reviewing and identifying areas of non essential expenditure. Savings generated included:

- Housing & Social Work Services realised savings of £3.3 million through a reduction in demand led services and £1.3 million from employee cost savings;
- Finance & Customer Services generated an additional surplus of £0.622 million through effective management of employee costs, including overtime management and reducing transport costs; and
- An additional £1.818 million for Learning & Leisure Services through tighter control of operational expenditure and receipt of additional external income.

3.04 In addition, £4.56 million of additional savings were achieved on external borrowing costs by the treasury management team through better cash flow management (£2.65 million) and securing more favourable borrowing rates (£1.91 million).

3.05 However, as noted in Section 2, a further provision of £15.257 million for equal pay claims had to be set aside and the Council also incurred additional costs due to the extreme winter weather and through its voluntary severance scheme.

Capital Expenditure 2010/11

3.06 Total gross expenditure for Housing and Composite Services amounted to £176.78 million. Main areas of capital investment were £63.509 million in schools, £15.825 million in leisure facilities, £3.865 million in social work facilities and £54.04 million on housing services.

Trading Operations

3.07 The Council's five trading operations (Building Cleaning, Catering, Land Management (formerly Grounds Maintenance), Waste Management, and Fleet Operations) reported a combined deficit for the year of £0.261 million. The deficit is solely due to non-recurring service reconfiguration costs, which amounted to £0.715 million.

3.08 Notwithstanding, the trading operations still met their overall statutory performance target of achieving at least break even over a three year period.

Performance Management

3.09 The Council's Performance Management Framework brings together all related strategic and operational planning activities. Performance information is contained within a performance portfolio for each Head of Service. The portfolios contain key performance information for each service including targets and thresholds approved by service committees prior to the start of each financial year.

3.10 For 2010/11, Performance Portfolios were an established component of each Service Plan and contained the following information: Core Performance Measures; Core Customer Feedback Measures; Performance Indicators; Financial Information & Unit Costs; and Customer Consultation / Community Engagement Activity.

3.11 Services review their current measures during the development of their service planning arrangements for the forthcoming year. This includes a review of all targets within each performance portfolio.

3.12 A new format of performance reporting was introduced to standardise the format of reports to service committees. The performance reports to the Scrutiny Panel have also been aligned with the Performance Management Framework to ensure a wider range of information is reported for scrutiny and not just the statutory performance indicators as previously reported.

3.13 The Corporate Service Improvement Team monitor performance on a quarterly basis and report using a Blue, Green and Red system as follows:

- Blue ✓ - the indicator is exceeding expectations, performance surpasses the target
- Green G - the indicator is on target and within the acceptable thresholds
- Red × - the indicator does not meet the target set and performance is outwith the acceptable thresholds

Performance Indicators

3.14 The Accounts Commission has a statutory responsibility to specify information that Councils must publish about their performance in the form of statutory performance indicators. For 2010/2011, the Accounts Commission stipulated the publication of 25 Statutory Performance Indicators (SPIs).

3.15 Auditors are expected to review whether arrangements are in place for collecting, recording and publishing performance data. Based on the work performed by us and by Internal Audit, we are content that most Services have adequate systems in place for gathering and reporting performance information. However, our review of performance information for the indicators/measures selected for audit testing did identify a number of control weaknesses that were housekeeping in nature. These have been communicated to management in a Final Management Letter.

Section 4: Financial outlook

4.01 The Scottish Government's spending plans are detailed for one year only and the Council has set its 2011/12 budget within this context. The 2011/12 Net Cost of Services base budget has been set at £777.547 million. The Council will receive £655.135 million in Aggregate External Finance for 2011/12, which represents a reduction of 2.6% (£17.2 million) from 2010/11. This reduction is slightly below the Scottish average of 2.8%.

4.02 Within the 2011/12 base budget, the Council has committed to:

- freeze Council tax
- maintain the current pupil/teacher ratio in primary 1 to primary 3 by ensuring that proposed savings options do not impact in this area
- continue to provide free personal care under the shared Scottish Government/COSLA commitment

4.03 The Council identified the need to achieve cost reductions of £70 million over the three year period from 2011/12 to 2013/14. The Service and People First Transformation Programme (SPF Transformation programme) is the key driver behind delivering the substantial savings required. The current corporate and community plans originally set out the strategic priorities and outcomes for the period 2008-2012. In light of the challenging financial outlook and in order to provide stability for all partners, both documents have been re-drafted to cover the period 2011-2014.

The Service and People First Transformation Programme

4.04 The Transformation Programme provides the framework to achieve an estimated budget reduction of £70 million between 2011/12 and 2013/14. There are six key workstreams within the Programme, which are being progressed in two phases:

Key Workstream	2011-2014 Budget Reduction Target £'000	Phase Total
Phase 1		
Workforce Deployment	23,000	
Service Prioritisation	16,000	
Procurement	5,000	54,000
Asset Management	5,000	
Income Generation	5,000	
Phase 2		
Shared Services, Continuous Improvement Reviews & Clyde Valley workstreams	16,000	16,000
Total	70,000	70,000

Phase 1

4.05 Phase 1 of the Transformation Programme focuses on developing savings options across five workstreams. A three year options programme was submitted to the Policy & Resources Committee on 1 December 2010, which approved a package of savings of at least £54 million for 2011/12 and 2012/13.

4.06 The savings package includes:

- a target reduction of 10% in the cost of Chief Officers
- an overall 10% reduction in management posts
- additional workforce deployment savings of £1 million.

Phase 2

4.07 The Council has recognised the need to accelerate the pace of change within Phase 2 of the Transformation Programme, which is projected to generate £16 million of savings. Phase 2 consists of three workstreams: Internal reviews (primarily driven by a diagnostic exercise initially undertaken in 2009), Clyde Valley Shared Services Workstreams and Further Continuous Improvement Reviews. The Council is actively participating in the Clyde Valley Review process, taking the lead on Waste Management.

4.08 Detailed business cases for the Clyde Valley Shared Services Workstreams were presented to the Clyde Valley Leaders and Chief Executives' Forum in June 2011 outlining proposals for shared support services and waste management.

4.09 It is estimated that the seven participating authorities could benefit from up to £30 million of savings per annum after five years, rising to £40 million per annum after 10 years through shared support services. The creation of a public-public arms length organisation to provide a range of services to participating councils has been proposed. An upfront investment of between £28 million and £31 million will be required to realise these savings. An assessment of the proposals is currently underway to consider potential risks, impact on service quality and the impact on the Council's transformation savings programme.

4.10 The Council is also actively participating in the other Clyde Valley Shared Services review areas of Waste Management, Health and Social Care Collaborative and Social Transport & Fleet Management.

4.11 Furthermore, internal reviews in areas such as IT Resources & Provision and HR systems and processes are ongoing as described in the Transformation Programme Update report to Policy and Resources Committee on 8 September 2011.

Section 5: Governance and Internal Control Arrangements

Overall Governance Arrangements

5.01 We have reviewed the Council's overall governance arrangements, including a review of the key Committee structures and composition, internal audit and risk management. An appropriate governance framework is in place.

Annual Governance Statement

5.02 The Code of Audit Practice requires us to review and report on the Council's Annual Governance Statement. The Council has used the correct format for its Statement and has outlined the processes it has employed to identify and evaluate risks. In addition, key elements of the Council's control framework have been highlighted, such as the Council's governance arrangements, as well as the work of internal audit and risk management. Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

Systems of Internal Control

5.03 Over the term of our external audit appointment, we review those key financial processes and controls which could have a direct impact on the statement of balances within the financial statements. Our audit testing included individual walkthroughs of the specific financial processes in place. In addition, on a rotational basis every three years, we undertake more detailed testing of certain key financial controls to ensure that these controls continue to operate as expected. In addition to the above, we reviewed the Council's IT general control environment, as it relates to the core financial systems.

5.04 The results of our work on systems of internal control were communicated on 18 May 2011 to the Audit and Governance Panel in our Interim Management Letter (dated April 2011). The report contained several recommendations, one of which was graded as higher risk concerning equal pay.

5.05 Management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. The implementation of these actions should be considered through follow-up procedures undertaken as part of the 2011/12 audit process.

Follow up of outstanding recommendations

5.06 In addition to our work on internal controls we followed up the Council's progress in implementing external audit recommendations made in prior years. Of the 44 agreed recommendations made in previous reports, only nine items remained in progress. There were no outstanding actions with a high priority risk rating. We are satisfied that due to the nature of the actions required, reasonable progress was being made to achieve the recommendations.

National Fraud Initiative

5.07 The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.

5.08 The 2010/11 NFI project is a two year programme. Information in relation to payroll, housing rents, private care home residents, blue badge holders and insurance claimants was submitted by the Council in October 2010 as part of the NFI exercise. Information on data matches was made available to the Council in February 2011 and is currently being prioritised and investigated by Internal Audit, Housing and Social Work Services and the Housing Benefit Fraud Team. Periodic reports on progress are submitted to the Audit and Governance Panel.

5.09 We are satisfied with the arrangements that have been put in place by the Council in relation to the 2010/11 National Fraud Initiative.

National Performance Audits

Improving Public Sector Purchasing

5.10 At the request of Audit Scotland, we were required to perform targeted follow up work on their National Performance Report: Improving public sector purchasing (published July 2009).

5.11 We noted that ongoing progress is being made by the Council to further refine and strengthen its procurement arrangements.

5.12 Results of the most recent Performance Capability Assessments (PCA) have shown an improvement from 32% in 2009/10 to 42% in 2010/11 (Local Authority Average 33%). Our review identified that management has demonstrated a commitment to improving the Council's purchasing processes and further progress will be measured by the upcoming 2011 PCA.

Sustainable Waste Management

5.13 At the request of Audit Scotland, we were required to perform targeted follow up work on their National Performance Report: Sustainable Waste Management (published September 2007) during the year. We noted that ongoing progress is being made by the Council to further develop and strengthen its sustainable waste management arrangements.

5.14 The Scottish Environmental Protection Agency (SEPA) reported on Scottish Councils' recycling and landfill rates for 2009/10. For North Lanarkshire Council the following was reported:

- 43% municipal waste recycled and composted, (national average 37%); and
- 57% municipal waste landfilled or incinerated, (national average 63%).

5.15 During 2010/11 the Council also acted as the primary lead during the Clyde Valley Review process which considered a consolidated approach towards waste management with 6 other local authorities. The business cases stemming from this review have now been presented to each of the respective local authorities and agreed in principal by the Chief Executives. If approval is successful, to its final conclusion, it is expected that the responsibility for the treatment and disposal of waste for all 6 local authorities will move to a single public body, with the aspiration of achieving significant economies of scale.

Appendices

Appendix 1: Action Plan

To assist management in assessing each recommendation, we have assessed the risk to the organisation for recommendation according to the criteria shown below:

High	**Significant business matter requiring immediate and continued attention by management**
Moderate	**Matter which needs to be rectified but where there is unlikely to be a material impact on the achievement of the business objectives**
Low	**Minor business impact**

The following recommendations have been raised within the body of this report:

Ref	Recommendation and Risk Rating	Management Response, Responsible Officer and Implementation Date
1	**Action** The Council should continue to monitor closely, equal pay grievances and the potential costs that may arise as a result of further pay protection claims that are being pursued. The Council should seek to quantify the potential liability associated with all equal pay cases and disclose this figure in their 2011/12 accounts. Any potential liability should be communicated clearly to elected members to facilitate the opportunity for effective scrutiny, decision making and identification of any further actions as required. **Risk Rating - High**	**Management Response:** The Council will continue to closely monitor the potential liabilities and keep Member informed of significant developments associated with equal pay and ensure that the accounting treatment is in accordance with the IFRS Code. **Responsible Officer:** John O'Hagan/Paul Hughes **Implementation Date:** June 2012 – accounting treatment in annual accounts. Otherwise Ongoing
2	**Action** The Council should review whether the financial statements of Morrisons Scotland LLP and Amey Public Services LLP should be consolidated within the 2011/12 Group Accounts **Risk Rating – Low**	**Management Response:** The Council will ensure that financial entries in the 2011/12 accounts in respect of Morrison Scotland LLP and Amey Public Services LLP are fully consistent and in accordance with the IFRS Code. **Responsible Officer:** Paul Hughes **Implementation Date:** June 2012

Ref	Recommendation and Risk Rating	Management Response, Responsible Officer and Implementation Date
3	**Action** As part of the 2011/12 annual accounts process the Council should disclose a Cash Flow Statement prepared under the indirect method. **Risk Rating – Low**	**Management Response:** The Council will ensure that the Cash Flow Statement in the 2011/12 annual accounts is prepared under the indirect method and is otherwise fully consistent and in accordance with the IFRS Code. **Responsible Officer:** Paul Hughes **Implementation Date:** June 2012

Appendix 2: Communication to those Charged With Governance

International Standards on Auditing ("ISA") (UK&I) 260 – Reporting to those charged with Governance, requires that the External Auditor communicates certain matters to those charged with governance. Those charged with Governance is taken to be the Members of the Audit and Governance Panel with responsibility discharged through the regular meetings of the Panel during the year. Summarised below are the requirements set out within ISA 260 together with reference to the relevant communication with you during 2010/11 or comments as appropriate.

Communication Required under ISA 260	Reference/Comment
Engagement Letters	Signed Engagements Letter with Audit Scotland at the start of our 5 year appointment.
Independence	2010/11 External Audit Plan, as taken to the 16 February 2011 Audit and Governance Panel, confirmed no member of audit team has any direct interest, financial or otherwise, in the Council.
Audit Approach and Scope	2010/11 External Audit Plan (16 February 2011 Audit and Governance Panel). During the year there were no changes to our plan or risk assessment that we are required to communicate with you.
Materiality	2010/11 External Audit Plan: Audit and Governance Panel, 16 February 2011.
Form and Timing of Communications	2010/11 External Audit Plan.
Accounting Policies/Estimates/Disclosures	Section 2 of our Annual Report to Elected Members and the Controller of Audit.
Correspondence with management on significant matters	Discussed and resolved matters arising with management throughout audit process. No unadjusted differences to report.
Letter of Representation	Signed by the Executive Director of Finance and Customer Services on 28 September 2011.
Financial Statements Audit Opinion	Signed by the Engagement Leader on 28 September 2011.
Other matters significant to the oversight of financial reporting process	None identified.
Material Uncertainties relating to Going Concern	See going concern comments in section 2.
Related Parties	Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.
Fraud	Discussed fraud arrangements with the Chair and other members of the Audit and Governance Panel on 16 February 2011 and discussed with management throughout the audit process. No significant frauds identified in the period.
Material Weaknesses in Internal Controls	Internal Controls findings reported separately in our Interim Management Letter, dated April 2011, and presented to the Audit and Governance Panel on 18 May 2011. No material weaknesses identified in the period.
Improving Public Sector Purchasing: Follow-up	Reported to Audit Scotland – September 2011.
Waste Management: Follow-up	Reported to Audit Scotland – September 2011.